

COUNTY OF CALAVERAS
Management Report
For the Year Ended June 30, 2008

Mgt Ltr.
3/16/09

COUNTY OF CALAVERAS

Management Report For the Year Ended June 30, 2008

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GALLINA_{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

Board of Supervisors and Grand Jury
of the County of Calaveras
San Andreas, California

In planning and performing our audit of the basic financial statements of the County of Calaveras (County) for the fiscal year ended June 30, 2008, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency, especially as they relate to preparation of the County's annual financial report. The memorandum that accompanies this letter summarizes our comments and suggestions and the status of our comments and suggestions concerning certain recommendations made in the County's prior year audit. We previously reported on the County's internal control in our report dated December 31, 2008. This letter does not affect our report dated December 31, 2008, on the financial statements of the County of Calaveras.

This report is intended for the use of management, the Board of Supervisors, the Grand Jury and officials of the federal and state grantor agencies.

We thank the County's staff for its cooperation during our audit.

Gallina LLP

Roseville, California
December 31, 2008

COUNTY OF CALAVERAS

Management Report Required Communication For the Year Ended June 30, 2008

To the Board of Supervisors
Of the County of Calaveras

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the County of Calaveras (County) for the year ended June 30, 2008, and have issued our report thereon dated December 31, 2008. Professional standards require that we provide you with the following information related to our audit.

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 5, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

COUNTY OF CALAVERAS

Management Report Required Communication For the Year Ended June 30, 2008

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 5, 2008.

Significant Audit Findings

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences: Management's estimate is based on information collected in the County's payroll system using current pay rates and past experience on employee use of compensating time-off. Our audit agreed balances reported in the financial statements to those in the County's payroll system.
- Capital asset lives and depreciation expense: Management's estimate is based on past experience. We scanned depreciation listings for reasonable compliance to this approach.
- Actuarial valuations of the claims liability: Management's estimate is derived from actuarial valuations obtained from experts. We agreed the claims liability reported in the financial statements to those reported in actuarial reports prepared and issued during the year being audited.
- Liability for solid waste landfill closure and postclosure costs: Management's estimate is based on engineering estimates of future costs to be incurred. We reviewed the engineer's estimate.

COUNTY OF CALAVERAS

Management Report Required Communication For the Year Ended June 30, 2008

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements noted below were detected as a result of audit procedures and were corrected by management:

- Accrue and defer Highway User Tax for April through June 2008, in the amount of \$484,868.
- To correct misposting of State Proposition 63 funds posted to the Substance Abuse fund when it should have been posted to the Mental Health fund in the amount of \$137,408.
- To record Proposition 40 grant revenues billed but not collected as of June 30, 2008, in the amount of \$477,750.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 31, 2008.

Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

COUNTY OF CALAVERAS

Management Report Required Communication For the Year Ended June 30, 2008

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

COUNTY OF CALAVERAS

Management Report – Current Year Recommendations For the Year Ended June 30, 2008

AUDITOR-CONTROLLER

TIMELINESS OF THE ANNUAL FINANCIAL REPORT

Criteria

Financial information and reporting is more effective and useful to management and financial statement users when it is provided timely.

Condition

In performing our audit, we again noted a significant delay in preparing the County's annual financial statements and note disclosures. Substantially all of the journal entries necessary to close the County's accounting records for fiscal year ended June 30, 2008, were posted by September 30, 2008. We performed fieldwork in connection with our audit of the County's financial statements during the week of September 15, 2008. At this time, the accounting records were ready for audit but the financial statements were not prepared. The financial statements were prepared and ready for review during the week of December 22, 2008.

Cause

We have observed that this is mainly due to an understaffed accounting department. Staff responsible for the County's financial reporting also has other accounting responsibilities that often take precedence over their financial reporting duties.

Effect of Condition

The lack of staffing resources causes a long delay between the time the accounting records are closed and ready and the time the financial report is available for review

Recommendation

We recommend hiring additional accounting staff so that those responsible for financial reporting will have more available time.

Management Response

The Auditor-Controller concurs with this recommendation. As this recommendation has consistently occurred, a solution needs to be addressed in order to effectively provide timely financial information and reporting to County management and financial statement users. The level of management staffing must be expanded to lessen burden on those required to work substantial overtime in order to complete assigned and/or mandated tasks. Auditor staff must be at a level sufficient to meet statutory obligations, and permit timely processing of daily operations. Additional accounting staff

COUNTY OF CALAVERAS

Management Report – Current Year Recommendations For the Year Ended June 30, 2008

AUDITOR-CONTROLLER (continued)

TIMELINESS OF THE ANNUAL FINANCIAL REPORT (continued)

Management Response (continued)

will permit cross-training in critical areas necessary to perform routine time-sensitive accounting responsibilities and ever-increasing demands of maintaining internal controls. This will provide more availability for management staff responsible for the County's financial reporting to dedicate their time to higher level, more complex accounting responsibilities.

A formal strategic plan for reorganization of the Office of Auditor-Controller was presented to the County Board of Supervisors on April 10, 2007. The plan detailed excessive workload growth in the Auditor-Controller's Office over the past ten-year period without a corresponding increase in staffing. The Calaveras County Grand Jury also recommended additional qualified staffing and departmental cross-training to more efficiently manage the workload for the Auditor-Controller's Office in their 2006-2007 Final Report approved on June 1, 2007, and their 2007-08 Final Report approved on June 5, 2008. To date, the Board has not granted any of the new positions that were requested in the plan.

COUNTY OF CALAVERAS

Management Report – Current Year Recommendations For the Year Ended June 30, 2008

DISAGGREGATION OF RECEIVABLES

Criteria

Various components of significant receivables are required to be disclosed separately in the notes to the financial statements if not visible on the face of the financial statements. Components of receivables include accounts receivable (due from citizens), taxes (property, sales taxes, transient occupancy) receivable, interest receivable, amounts due from other governments and notes receivable.

Condition

During the closing process, all receivables, except for interest and notes receivable are posted to one or two accounts. External schedules are maintained tracking the details of receivable by type. After posting closing entries to the general ledger, staff in the Auditor-Controller's office prepares a journal entry in the financial reporting system (GoSystem) to disaggregate the receivable accounts. This results in additional work: once when the receivable information is collected and posted to the County's general ledger system and again when preparing the County's annual financial statements.

Cause

Currently, the County records the majority of receivables into one of four accounts: accounts receivable, due from other governments, taxes receivable and loans receivable. Although these accounts exist in the County's chart of accounts, they are not used consistently in a way that corresponds to financial reporting requirements.

Effect of Condition

Failure to capture receivable information into the general ledger at the disaggregate level of detail results in additional work when preparing the financial statements by having to refer to external schedules. Risk of errors is also increased.

Recommendation

We recommend that the County's closing entries to record receivables be modified to capture receivable balances into each of the accounts described above according to their nature so that financial statement balances and disclosures can be derived directly from the County's general ledger without additional reference to external schedules and financial statement entries.

Management Response

Auditor-Controller staff will modify the County's closing process to record receivables to capture receivable balances according to their nature so that financial statement balances and disclosures can be derived directly from the County's general ledger.

COUNTY OF CALAVERAS

Management Report – Current Year Recommendations For the Year Ended June 30, 2008

COMPLETENESS OF RECEIVABLES

Criteria

Under the modified accrual basis of accounting which is used to account for the County's governmental funds as required by generally accepted accounting principles (GAAP), income that has been earned must be reported as a receivable regardless of whether it has been collected within sixty days following the close of the County's fiscal year end. Receivables that are not collected within the sixty days following the close of the County's fiscal year end should be reported as deferred revenues

Condition

Although the County collected information from departments about receivables existing as of June 30, 2008 but not collected within the sixty days following the close of the fiscal year end, our audit procedures found the following receivables which were not recorded on the County's accounting records:

State Highway User's Tax	\$ 484,868
Proposition 40 Grants Receivable	477,750

Cause

As the County's accounting system reports transactions on a cash basis during the year, additional processes are required to collect information about receivables and then to incorporate those balances into the general ledger accounts. Although subsequent receipt of a receivable is the best evidence about the existence of a receivable at year end, the first sixty days of deposits following the close of the accounting period is an insufficient range of time to ensure completeness of receivables, especially considering this year's delay in receiving funds from the State. Because departments may not be adequately trained to recognize receivables and report this information, the Auditor-Controller's may not have the information necessary to ensure receivables are complete.

Effect of Condition

As the County receives revenue from many sources and under many different arrangements, it is difficult for the Auditor-Controller's Office to be fully aware of all expected revenues without input from the other County departments responsible for collecting the revenues. Statement on Auditing Standards No. 112 provides that identification by the external auditor of a material misstatement in the financial statement that was not initially identified by the County's internal control system is an indicator of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

COUNTY OF CALAVERAS

Management Report – Current Year Recommendations For the Year Ended June 30, 2008

Recommendation

We recommend that the County consider additional steps in its year-end closing process to ensure material misstatements do not occur. Such steps might include training County departments to more readily recognize receivables and performing a risk assessment process for each receivable account to ensure its completeness.

Management Response

The Auditor-Controller's Office has taken steps to more fully develop departmental year-end closing procedures. Management is currently working with the County's Technology Services Department to develop reports to assist the departments with their analysis. The enhanced process will include a required detailed analysis from all departments' revenue sources compared to the prior year with explanations for all variances noted.

COUNTY OF CALAVERAS

Status of Prior Year Recommendations As of June 30, 2008

<u>Fiscal Year Ended June 30,</u>	<u>Recommendations</u>	<u>Status/Comments</u>
	HUMAN RESOURCES	
	<u>File Maintenance</u>	
2007	We recommend the Human Resource Department improve efforts to maintain complete files for each employee in accordance with County policy.	No follow-up required
	ADMINISTRATION	
	<u>Construction-in-Process -- Written Accounting Policies and Procedures</u>	
2005	We recommend that the County Administration along with the Auditor-Controller develop standard accounting policies and procedures for construction projects. Consideration should be given to making this an amendment to the County's existing policy document concerning capital assets.	In Process
	AUDITOR-CONTROLLER	
	<u>Financial Statement Preparation, Staffing and Turnover</u>	
2006	The County should examine and look for creative ways to recruit and retain qualified staff, including whether additional staffing is needed to manage the workload commensurate with increases in the volume of transactions managed by the department. We recommend that the County review its processes to determine whether others in the department can be cross trained to assist in the preparation of the financial report.	Partial corrective measures taken See current year comment
2007	We recommend hiring additional accounting staff so that those responsible for financial reporting will have more available time.	Not Implemented

COUNTY OF CALAVERAS

Status of Prior Year Recommendations As of June 30, 2008

<u>Fiscal Year Ended June 30,</u>	<u>Recommendations</u>	<u>Status/Comments</u>
ANIMAL CONTROL		
<u>Segregation of Duties</u>		
2004 AND 2006	We recommend separating the duties of collection and deposit preparation from posting to the department's accounting system. We recognize that the department is not sufficiently large enough to accommodate adequate segregation of duties to prevent errors or fraud. As an alternative, compensating controls such as management's review of daily collections and accounts receivable adjustments should be implemented.	Implemented
PLANNING		
<u>Trust Accounts</u>		
2003	We recommend that trust funds be reconciled at least monthly to the Auditor-Controller's records.	Outstanding negative balance not resolved
PROBATION		
<u>Segregation of Duties over Accounts Receivable and Cash Receipts</u>		
2007	We recommend the functions of preparing invoices, collecting payments and maintaining the accounts receivable ledger be separated.	Implemented
SINGLE AUDIT		
<u>Single Audit Compliance Requirements Generally</u>		
2007	We recommend that the County implement procedures which require that on any federally-funded transaction, which equals or exceeds \$25,000 or for any amount with a subrecipient, that the County check to make sure that the other party to the transaction is not suspended or debarred. Lists of suspended and debarred parties are available online from the Excluded Parties List System at www.epls.gov .	Implemented